

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01

NEA-06 IO-10 H-01 L-02 PRS-01 PA-01 USIA-06 AGR-05

SWF-01 /092 W

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P 260717Z NOV 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8644

INFO AMEMBASSY BANGKOK PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 6/30/75

TAGS: EAID, EFIN, TH

SUBJECT: PROPOSED ADB LOAN -NONG WAI PRIONEER AGRICULTURAL
PROJECT (THAILAND)

SUMMARY: ADB MANAGEMENT PROPOSES \$5 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO KINGDOM OF
THAILAND TO FINANCE FOREX COST OF EQUIPMENT AND
SERVICES FOR PROGRAMMING, CONSTRUCTION AND INTITIAL
OPERATION OF AN INTEGRATED IRRIGATED AGRICULTURE
PROJECT ALONG NAMPONG RIVER IN NORTHERAST THAILAND.
PROJECT APPEARS WELL CONCEIVED. NAC GUIDANCE REQUESTED.

1. ADB DOC. R114-74 WITH ATTACHEMENTS DESCRIBING
PROPOSED LOAN POUCHED ADDRESSEES NOV. 21. BOARD CONSIDERATION
SCHEDULED DEC. 10.

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2. ADB MANAGEMENT PROPOSING \$5 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO KINGDOM OF THAILAND. PROCEEDS WILL FINANCE FOREX COST OF A 12,000 HECTARE INTEGRATED AGRICULTURE PROJECT ALONG NAM PONG RIVER NEAR KHON KAEN IN NORTHEAST THAILAND. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT SERVICE CHARGE. KINGDOM OF THAILAND TO BE BORROWER, MINISTRY OF AGRICULTURE AND COOPERATIVES TO BE EXECUTING AGENCY.

3. ALTHOUGH AG SECTOR IN THAILAND ACCOUNTS FOR ONLY 28 PERCENT OF GDP, IT ACCOUNTS FOR 70 PERCENT OF TOTAL EXPORTS AND EMPLOYS 75 PERCENT OF TOAL LABOR FORCE. RICE IS STAPLE FOOD AND LEADING EXPORT. WHILE GROWTH RATE OF AG PRODUCTION AVERAGE 5.5 PERCENT DURING 1960'S, MOST OF INCREASE ATTRIBUTED TO EXPANSION CULTIVATED AREAS RATHER THAN IMPROVEMENTS IN PRODUCTIVITY OR CROPPING INTENSITY, FOR WHICH THERE IS CONSIDERABLE POTENTIAL.

4. NORTHEAST REGIO PRODUCES ONE-THIRD OF NATION'S RICE OUTPUT IN ABOUT 3.5 MILLION HECTARES OF PADDY LAND. ADDITONAL 700,000 HA. IN REGION PRODUCE UPLAND CROPS MOSTLY KENAF, CASSAVA AND MAIZE. RAINFED RICE SUBJECT TO WIDE MONSOONAL FLUCTUATIONS; OFTEN 15 TO 20 PERCENT OF PLANTED AREAS LOST TO EITHER DROUGHT OR FLOODS. TO ASSURE MORE RELIABLE WATER SUPPLY, SEVEN MAJOR RESERVOIR PROJECTS WITH COMBINED SERVICE AREA OF 184,000 HA. UNDER WAY IN AREA WITH FIVE MORE UNDER STUDY WITH POTENTIAL SERVICE AREA OF 280,000 ADDITIONAL HA.

5. UP TILL NOW, FEW FARMERS HAVE BENEFITTED FROM EXISTING IRRIGATION WORKS BECAUSE OF LACK OF EFFECTIVE ON-FARM DISTRIBUTION SYSTEMS LEADING FROM SUBSIDIARY CANALS, ALSO INADEQUATE SUPPORTING SERVICES TO PROVIDE INPUTS AND ENCOURAGE AND ASSIST FARMERS TO ADOPT INTENSIVE AG PRODUCTION METHODS.

6 MULTI-PURPOSE STORAGE RESERVOIR AND DIVERSION
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DAM BUILT ON NAM PONG RIVER 1964/65, WITH MAIN CANAL AND LATERALS ON RIGHT BANK SERVING PROJECT AREA COMPLETED 1971. HOWEVER TERMINAL (ON-FARM) IRRIGATIONS AND DRAINAGE FACILITIES, UNDULATING TOPOGRAPHY AND FRAMGMENTATION OF LAND HOLDINGS HAVE CONSTRAINED EFFECTIVE WATER DELIVERY AND CONTROL; FOR MANY FARMS, LA D LEVELLING IS REQUIREDN FOR EFFICIENT WATER MANAGEMENT WITH RESULT THAT

LITTLE BENEFITS TO FARMERS HAVE YET ACCRUED FROM EXISTING INVESTMENT.

7 PROPOSED PROJECT WOULD COVER REHAB, IMPROVEMENT AND EXTENSION OF EXISTING IRRIGATION, DRAINAGE AND ROAD SYSTEMS; PROVIDE FOR LAND CONSOLIDATION WITHIN ENTIRE IRRIGABLE AREA WITH MINIMUM LAND LEVELLING NECESSARY PLUS PROVISION OF INTEGRATED AG SUPPORTING SERVICES TO AREA FARMERS. SCOPE OF PROJECT ACTIVITIES TO INCLUDE (1) TOPOGRAPHIC AND CADASTAL SURVEYS AND MAPPING. LAND CLASSIFICATION; (2) REHAB AND IMPROVEMENT OF EXISTING IRRIGATION, DRAINAGE AND ROAD NETWORKS; (3) LAND CONSOLIDATION, NECESSARY LAND LEVELLING AND TERMINAL (ON -FARM) WATER FACILITIES; (4) STRENGTHENING GOVT. SERVICES IN AG RESEARCH, EXTENSION, TRAINING, CREDIT AND MARKETING; (5) ESTABLISHING MULTI-PURPOSE AG CO-OP; IRRIGATION ASSOCIATION AND FARMER'S GROUP ASSOCIATIONS; (6) EQUIPMENT FOR SURVEY, CONSTRUCTION AND AG DEVELOPMENT WORK AND (7) CONSULTING SERVICES. ALSO, PORTION OF COSTS EXCEEDING \$100,000 OF PREVIOUSLY GRANT-FINANCED TECHNICAL ASSISTANCE (TA) TO FORMULATE PROJECT WILL BE CHARGED AGAINST LOAN.

8. TOTAL COST OF PROJECT ESTIMATED AT \$14.526 MILLION, INCLUDING \$4.926 MILLION FOREX COSTS TO BE ALLOCATED FOR: CONSTRUCTION AND SURVEYING EQUIPMENT (\$2.829); CONSULTING SERVICES FOR DESIGN AND SUPERVISION OF CONSTRUCTION AND AG DEVELOPMENT ADVISORS (982); AG EQUIPMENT (\$135) AND CONTINGENCIES (\$989) (ABOVE FIGURES IN THOUSANDS). ALSO \$74,000 CHARGED TO LOAN IS PORTION OF TA WHICH EXCEEDED LIMITED OFFICIAL USE

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GRANT-FINANCED \$100,000. ALLOWANCES OF 15 PERCENT FOR PHYSICAL CONTINGENCIES AND 10 PERCENT AND 15 PERCENT FOR FOREX AND LOCAL COST ESCALATIONS HAVE BEEN PROVIDED, AMOUNTS DEEMED SUFFICIENT. GOVT HAS ASSURED LOCAL CURRENCY WILL BE AVAILABLE WHEN REQUIRED FOR IMPLEMENTATION (SIDE LETTER NO. 4, PARA 6(E)).

9. EXECUTING AGENCY, MINISTRY OF AGRICULTURE AND COOPERATIVES NOW RESPONSIBLE FOR ALL AG-RELATED PROJECTS INCLUDING IRRIGATION FOLLOWING 1972 GOVT DECISION BASED ON PREVIOUS LACK OF COORDINATION BETWEEN AG MINISTRY AND ROYAL IRRIGATION DEPARTMENT (RID) UNDER DEVELOPMENT MINISTRY. GOVT WILL ESTABLISH PROJECT COORDINATING COMMITTEE (SIDE LETTER

NO. 4, PARA 2). CHAIRED BY HIGH LEVEL OFFICIAL.
COMMITTEE TO APPOINT PROJECT DIRECTOR AND THREE
PROJECT MANAGERS TO BE SECONDED FROM RID, COOPEATIVES
AND AG EXTENSION DEPTS. ALSO COMMITTEE INCLUDES
LAND DEVELOPMENT, LIVESTOCK AND FISHERIES STAFF.
MINISTRY IS CHARGED WITH ENFORCEMENT RECENTLY-
ENACTED LAND CONSOLIDATION PROGRAM. ALSO PROVINCIAL
COORDINATING COMMITTEE TO BE ESTABLISHED (SIDE
LETTER NO. 4, PARA 5) CHAIRED BY KHON KAEN PROVINCIAL
GOVERNOR AND INCLUDING EGAT MEMBERS. ALL ABOVE STEPS TO
ASSURE CONTINUING AND TIMELY COORDINATION.

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-06 IO-10 H-01 L-02 PRS-01

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FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01

AGR-05 SWF-01 /092 W

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10. PROJECT IMPLEMENTATION SCHEDULED FOR SEVEN YEARS
TO ALLOW PLANNING, CIVIL WORKS, LAND CONSOLIDATION,
AND INTEGRATED AG DEVELOPMENT TO OCCUR IN ORDERLY
SEQUENCE, INITIALLY WITH TWO 400 HECTARE SAMPLE
AREAS. GIVEN NEED FOR TOPO MAPPING, CADASTRAL AND
CLASSIFICATION STUDIES PRIOR TO IRRIGATION REHAB
AND LAND DEVELOPMENT WORK, PROJECT SCHEDULE FOR LAND
CONSOLIDATION STARTS WITH 1000 HA FIRST YEAR IN-
CREASING TO 3000 HA FOR THIRD AND SUBSEQUENT YEARS.

11. CONSULTANTS TO BE ENGAGED UNDER BANK GUIDELINES, TO BE SIX-MAN TEAM COMPRISED OF IRRIGATION ENGINEER (LEADER), DESIGN ENGINEER, TOPO SURVEYOR, AG EXTENSION SPECIALIST, FARMER ORG. ADVISOR AND MARKETING SPECIALIST. DESIGN ENGINEER TO REMAIN UP TO FIFTH YEAR OF IMPLEMENTATION; OTHER CONSULTANT EXPERTISE TO BE PROVIDED INITIALLY AND THEN PERIODICALLY AS REQUIRED.

12. PROCUREMENT TO BE IN ACCORD BANK'S GUIDELINES
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WITH SUPPLY CONTRACTS OVER \$100,000 ON BASIS COMPETITIVE BIDDING; UNDER THAT AMOUNT BY INTERNATIONAL SHOPPING. (EXCEPT SMALL ITEMS.)

13. OPERATIONS AND MAINTENANCE (O & M) OF MAJOR IRRIGATION FACILITIES INCLUDING NONG WAI DIVERSION DAM, MAIN CANALS AND LATERALS TO REMAIN RID RESPONSIBILITY; UBOLRATANA RESERVOIR AND HYDRO STATION REMAIN UNDER EGAT AUTHORITY. HOWEVER, TERMINAL FACILITIES IN UNIT SERVICE AREAS TO BE FARMER RESPONSIBILITY UNDER CONSOLIDATED IRRIGATION ASSOCIATION TO BE ESTABLISHED (SIDE LETTER NO. 4, PARA 6 (G)). GOVT ASSURES POLICY WILL BE TO CHARGE FARMERS FOR O & M, AND HOPEFULLY RECOVER PART OF INVESTMENT COSTS; WILL UNDERTAKE WITHIN 2 YEARS OF LOAN SIGNING CONDUCT COST STUDY AND ESTABLISH WATER USE CHARGE SCHEDULE.

14. UPON COMPLETION, INTENSIVE YEAR ROUND CROP PRODUCTION TOTALLING 23,940 HA/ANNUM AT HIGHER YIELDS EXPECTED TO GENERATE INCREMENTAL OUTPUT 42,000 METRIC TONS OF PADDY PER ANNUM VALUED AT US\$6 MILLION AT PROJECTED WORLD PRICES. ALSO PEANUTS TO BE INTRODUCED AS SECOND CROP. PER CAPITA FARM INCOME EXPECTED TO INCREASE FROM BAHT 1,768 (\$88) TO BAHT 4,858 (\$243). ECONOMIC RATE OF RETURN ESTIMATED AT 18 PERCENT, PROJECT CONSIDERED TECHNICALLY AND ECONOMICALLY FEASIBLE, WILL PROVIDE SOCIAL BENEFITS TO AREA. GOVT HAS ACCORDED PROJECT HIGH PRIORITY, ESPECIALLY FOR DEMONSTRATION EFFECT IN THIS LEAST-DEVELOPED REGION OF COUNTRY.

15. USADB NOTES THAT UNDER ADB'S RECENTLY ADOPTED (SEPT. 1974) QUOTE CRITERIA FOR LENDING FROM THE ASIAN DEVELOPMENT FUND (ADF) END QUOTE THAILAND WITH PER CAPITA INCOME OF \$240 WOULD BE CONSIDERED MARGINALLY ELIGIBLE FOR BANK'S SPECIAL FUNDS LOANS.

(COUNTRIES WITH PER CAPITA GNP OF \$201 TO \$300 RANGE
ARE CONSIDERED marginally ELIGIBLE WITH \$300 AS
CUT-OFF FIGURE.) IN ADDITION TO GNP TEST, ADF
CRITERIA ALSO LISTS COUNTRY OVERALL ECONOMIC SITUATION
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AND RESULTING ABILITY TO REPAY AS MOST IMPORTANT
CONSIDERATION IN DETERMINING ELIGIBILITY FOR SPECIAL
FUNDS FINANCING. APPRAISAL DOC. NOTES THAT THAILAND
BALANCE OF PAYMENTS, FOREX RESERVES AND ABILITY TO
SERVICE DEBT HAVE BEEN IMPROVED CONSIDERABLY BY RISING
EXPORT COMMODITY PRICES. ALTHOUGH IBRD HAS PROVIDED
THREE IDA CREDITS, INCLUDING ONE AS RECENTLY AS LAST
FEB. 1974, USADB QUESTIONS IF USE OF SCARCE ADF
RESOURCES CAN BE JUSTIFIED IN LIGHT OF MUCH IMPROVED
CIRCUMSTANCES. PRESIDENT'S REPORT STATES SPECIAL
FUNDS FINANCING IS NOT CONTEMPLATED IN FORESEEABLE
FUTURE UNLESS THERE IS SERIOUS DETERIORATION IN
THAILAND ECONOMY. PROJECT OTHERWISE APPEARS WELL
FORMULATED AND LOCATED IN PART OF COUNTRY NEEDING
MUCH ASSISTANCE. NAC GUIDANCE REQUESTED.

16. REQUEST U.S. MISSION BANGKOK COMMENTS FOR NAC
AGENCIES, INFO USADB MANILA, PURSUANT TO STATE
119795 DTD 3 JULY 1972.
SULLIVAN

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Message Attributes

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Draft Date: 26 NOV 1974
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Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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